



**Testimony of Hamilton Davison**

**President and Chief Executive Officer, Paramount Cards Inc.**

**Before the Special Panel on the U.S. Post Office**

**Of the Government Reform Committee**

**Of the U.S. House of Representatives**

**February 11, 2004**

**Good afternoon Chairman McHugh and distinguished members of the Special Panel.**

**My name is Hamilton Davison, President and CEO of Paramount Cards, an industry leader in what we call "value-oriented" marketing. I believe "value-oriented" thinking needs to be imbued into our postal system, supported by this Panel and this Congress. The word "value" is key. In business, a "value-added" approach is the determinant for success, as should be the case with the Postal Service.**

**I appreciate the opportunity to bring to your attention issues that are vital to the country, my industry and my company. As a former president and current director of the Greeting Card Association, my comments are reflective of the broader perspective of my industry while being anchored in the realities of a competitive marketplace.**

**Our postal system is in danger and needs a systemic overhaul. As the pace of a high tech life continues to accelerate, along with the uncertainties of homeland security alerts, military action and the everyday stresses felt by families trying to stretch budgets, we find Americans increasingly interested in nostalgic, soft touch means of communicating and commemorating the milestones of those they care about. Because over half of all cards are mailed – as opposed to being hand-delivered by the card giver – the success of the US Postal Service is of paramount concern to us.**

**Every year, some 240 million Americans exchange greeting cards. This week, on February 14th, more than one billion Valentine cards will be exchanged as Americans express their feelings**

to friends and loved ones. This Committee can send a Valentine to America by pumping renewed life into a postal system all citizens rely on.

To succeed in business, you have to listen to customers and adjust to their needs. Several years ago we got the message that consumers thought cards cost too much. We refocused our strategy, creating a retail concept called Cardsmart that offers half priced cards, and doing other thing to get “great cards in peoples’ hands at a great price.” Nor is Paramount the only company in my industry to respond to demand for lower priced cards. Today, when purchased in quantity, you can buy terrific cards at about 37 cents a piece. We also sell millions of cards each year at 50 cents each when purchased only one at a time. Point here is that Americans demand value in every aspect of the consumer choices they make. The real cost of technology, telecommunications and transportation have all fallen dramatically. Undoubtedly you have seen ads from the largest retailer in the world showing not specific products but some yellow smiley face who keeps on knocking down prices everywhere it goes. Expectations of Americans have been changed. Choices are everywhere. Substitutes are plentiful. Competition is intense.

This same consumer expectation affects the USPS. Common wisdom used to be that the single piece first class, or individual, mailer would pay whatever was charged; household postage was felt to be inelastic. Many argued that bulk mailers should be given the best price at the lowest margin to encourage expansion of units mailed and help finance growth of the network. Today, this is simply not the case. Our research has shown that stamp pricing affects demand and I also have plenty of anecdotal evidence that supports this. One of our Cardsmart store operators, Joe Voelkl, who has 8 stores in upstate New York, related his customer sentiment like this:

**“People are put off by the price of postage and it affects the number of cards they send.**

**Even as card prices become more reasonable than a few years ago, the cost of postage has a major impact. This even cuts into our store traffic, which hurts. It’s not fair that regular people pay first class rates and our mailboxes are full of bulk mail that somehow gets sweetheart rates.”**

**I agree with Mr. Voelkl. That is the new reality. Point of all of this is that the price of stamps and thus the cost of our postal system is a central element in its viability – in fact its survivability – in the future. Legislation that advocates an efficient, fair postal system would certainly be a great Valentine for Congress to send to the American people ... and would be one they enjoy each holiday all year!**

**For the most part, I agree with the recent Postal Commission’s recommendations and the President’s Five Principles for Reform. We can tweak elements, but the broad strokes are good. In fact the Greeting Card Association (GCA) was an early advocate for a Postal Commission. The GCA has submitted to you written testimony addressing specific elements we would like to see in any postal reform bill and I agree with the points raised in this testimony. But I hope I have vividly underscored the need for *cost improvement* of the system, not simply caps on further rate increases. The Postal Service must be given the mandate and the tools to drive increasing value in the mail through advances in its competitive position or it will not enjoy the widespread use and tremendous brand equity it has today.**

**I advocate three important "value-oriented" actions:**

- . First... Establish strong and efficient regulatory protection for the captive postal customer, or average Americans**
- . Second... Grant the Postal Service authority to control its workforce and facility costs, just as companies do in all industries**
- . Third... Create a Postal Service business model that recognizes and differentiates the interdependency of first class citizens mail with that of high volume, low cost bulk mail.**

**The first point was a cornerstone recommendation of the Presidential Commission on the U.S. Postal Service, which called for a “Postal Regulatory Board” with authority to regulate rates for noncompetitive products and services and subpoena power to ensure financial transparency on the part of the USPS.**

**The approach taken in the postal reform legislation developed by this Committee’s Chairman, John McHugh, and Representative Henry Waxman, also contained this recommendation. A strong Checks and Balances mechanism is vital, including a review of specific rate setting provisions. I’d add a Congressional mandate for both fairness and cost alignment. Mr. Chairman, your leadership in this area is well documented. I am aware also of Congressman Waxman’s similar calls as it relates to the health care system. Together, your leadership can nurture the health of U.S. Postal Service. Much like we do not miss good health until it is gone, most Americans won’t miss an effective mail system until it is no longer available.**

The second point on stringent cost control of workforce and facilities is essential to the long-term success of the Postal Service, just as it is for private sector companies.

This is a major concern for me on two levels. As I stated earlier, controlling costs is an essential element in assuring the long-term viability of the Postal Service. It is also the Commission's *comprehensive* cost control recommendations that make it possible for me to accept a rate setting system that lacks prior review. In fact, I would not have contemplated a post review system before the Commission Report. While the last two years have given me optimism that rates fair to the individual or citizen mailer are considered important by both Postal officials and bulk mailers, when I take a longer view of postal history, I see that this has not always been the case. A strong “Checks and Balances” architecture that survives future Postal administrations is required.

The Commission also raised the issue of wage comparability, which I believe should be resolved. If we are serious about placing the Postal Service on firm financial ground, then this is the seminal question that must be answered before any other workforce changes are contemplated. This matter ties directly to the President’s call for Best Practices, Transparency *and* Accountability. I respectfully suggest that the General Accounting Office promptly be assigned the task of reviewing postal and private-sector pay and benefit levels and of making definite findings as to whether postal compensation is comparable. The practice of periodic wage and benefit comparability reviews are consistent with virtually every large commercial enterprise with which I am acquainted. In my company, we conduct such a review every two to three years. Another industry best practice is the periodic benchmarking of the ratio of supervisors to workers and the periodic restructuring and rationalizing of management and staff levels. In my company

**we actively work to reduce headcount per unit output, and we do so often without layoff or dislocation, making every possible attempt to minimize the personal disruption these efforts can cause. But we do actively work the cost structure of our supply line because to do otherwise invites falling behind the competition. Nor is this unique to my company. It is reasonable to demand regular annual productivity increases as measured in the real terms of unit cost (and in particular units processed per person). With the high number of Postal employees soon to be at retirement age, a great opportunity is now available to improve the cost structure that we must not let pass.**

**Another aspect of the Commission's cost control recommendations was achieving an optimum network. I urge resisting provisions of law inhibiting the closing of post offices or processing facilities. In the retail trade, it is accepted practice to aggressively close and relocate some percentage of stores annually to mirror shifts in population, traffic or shopping patterns. Businesses also periodically re-assess their warehouse and distribution center placement and make changes when they are cost justified. The ability to continuously optimize the logistics network and facility utilization and place postal services where America lives, works and shops, free from outside concerns, is critical.**

**None of my comments in any way are criticisms of the efforts of the current top management team at the Postal Service; quite the contrary. They have been managing the business aggressively, taking strong action indicated by the current crisis in volume – all moves I support and appreciate. My judgment is that this must continue. Congressional reform, however, will set the ground rules for future administrations.**

**Regarding other Presidential Commission recommendations, I concur that:**

- . Collective bargaining should be improved.**
- . Benefits such as pension and health care plans should be included in negotiations for future employees and retirees.**
- . The USPS should be granted relief from the Federal Employee's Compensation Act to make changes set forth by the Commission and bring Worker's Compensation claims into line... and**
- . A statutory salary cap should be repealed to attract and retain officers and employees with pay competitive with the private sector.**

**All of these are consistent with private sector best practices.**

**As to my third major recommendation, my industry has advocated refocusing the Postal Service's business model on the types of mail that go to the core value Americans place on the mail (and that bring in the most net revenue per piece) – that is, personal correspondence such as letters and greeting cards. Opinion research has shown that the American people hold the postal system in high regard, they trust it more than other communications media, and they prefer it for messages with high personal or emotional content. The value American households place on the personal mail they receive carries over to the business and advertising mail that also forms part of the "Mail Moment" (the Postal Service's term for the experience of collecting and reading one's incoming mail). If personal mail were to disappear, much of the utility the postal system offers to commercial users would disappear with it. We must look beyond volume and recognize the interdependence between mail types. If Americans stop going to their mailboxes it will kill the**



system for everyone. In fact, even a rate cap pegged to inflation represents a concession from my standpoint. Gains in productivity should also be reflected in any rate cap mechanism.

Mr. Chairman, let me underscore that I believe these steps are essential. It would be difficult, if not impossible for me to support any postal reform legislation that fails to allow the Postal Service to manage its costs effectively.

In summary, let me reiterate my commitment to ensuring the viability of the Postal Service into the future. It is a commitment to preserve the communication network that binds our nation together through universal service at affordable rates. I believe a strong and effective regulatory system, providing the necessary checks and balances, coupled with effective cost controls and a business model that looks beyond mere volume are the most important components to achieving that goal.

Thank you Mr. Chairman for your time. I would be happy to answer any questions you or your colleagues may have.